FINANCIAL MARKET INSIGHT

VANN EQUITY MANAGEMENT

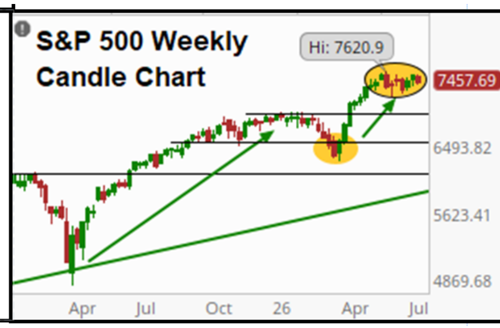
HIGHLIGHTS

- Did Markets Pass or Fail the Three Tests?
- Economic Cheat Sheet: Important Growth Updates
- Evolution of the AI Trade: ROCs, SOCs and SaaS
- Are Bad IBM Results a Warning for Broader Tech?
- What Is the Copper-Gold Ratio Telling Us?

STOCKS

S&P 500

- Technical View: The S&P 500 began June with a sharp and sudden reversal from record highs, with the index threatening to break down to one-month lows.
- Primary Trend: **Bullish (since the week of April 13, 2026)**
- Key Resistance Range: 7572 - 7610
- Key Support Range: 7313 - 7267



SOURCE: Factset and Vann Equity Management Research Team

"The S&P 500 dropped on AI-related tech weakness, as a sharp decline in tech pulled the broader indices lower (although non-tech sectors held up relatively well)."

- ✓ **What is Outperforming:** Defensive sectors, energy.
- ✓ **What is Underperforming:** AI-related tech, cyclical sectors.

Did Markets Pass or Fail the Three Tests?

Our investment committee gathered at our round table to discuss the forces driving this year's equity market rally. Rather than simply accepting the prevailing market narrative, we identified three key tests that could either strengthen the case for continued gains or expose potential weaknesses beneath the surface.

With those tests now complete, the results were mixed. Some developments reinforced the market's foundation, while others raised new questions about whether the rally can maintain its current pace.

Test 1: ASML and Taiwan Semiconductor Earnings

What we were watching:

ASML and Taiwan Semiconductor were among the first major AI infrastructure companies to report earnings. Because expectations for AI spending are extremely high, investors wanted to see continued strong demand from large technology companies without creating new concerns about excessive spending.

Verdict: Fail

- Both companies reported strong results, but the reports did not ease concerns about whether the current pace of AI investment is sustainable.
- Taiwan Semiconductor and ASML both discussed significant spending to expand production capacity, including plans by ASML to increase capacity by approximately 30%. That spending reflects strong demand, but it also raises an important question: What happens if demand slows after companies have committed so much capital to expansion?
- IBM highlighted another risk. While some technology companies are benefiting from the AI spending boom, others are being pressured as customers redirect budgets toward AI-related equipment and capacity. Taiwan Semiconductor also noted weakness in some non-AI areas of its business.

The results were not bad, and there was no clear sign that AI demand is slowing. However, they reinforced concerns that the technology sector has become increasingly dependent on continued aggressive AI spending.

What is next:

More major technology companies report over the week, including Alphabet, Texas Instruments, ServiceNow, and Intel. Investors will be looking for strong demand but also signs of spending discipline and long-term stability.

Test 2: Inflation Data

What we were watching:

The market needed additional evidence that inflation had peaked and was beginning to ease. If inflation cooled, Treasury yields were expected to move lower. If not, the 10-year yield near 4.50% would appear justified.

Verdict: Pass

- The inflation reports were encouraging. Both CPI and PPI came in better than expected, while several July manufacturing surveys showed additional improvement in price pressures.

The market did not receive the full benefit of the better inflation data because the conflict between the United States and Iran pushed oil prices higher. Even so, the reports support the view that inflation likely peaked in May. That should reduce pressure on the Federal Reserve to raise rates and could help move Treasury yields lower, which would be positive for stocks.

What is next:

Oil prices are now the key risk. Brent crude is approaching $90 per barrel. A move toward $100 could reverse recent inflation progress and bring rate-hike concerns back into focus.

Test 3: Federal Reserve Rate-Hike Expectations

What we were watching:

Fed Chair Warsh's congressional testimony provided an opportunity to reinforce the view that the Federal Reserve is not eager to raise rates, especially if inflation continued to improve.

Verdict: Pass

- Chair Warsh emphasized the importance of restoring price stability, but his comments were not more restrictive than expected. As a result, the probability of a July rate increase fell from approximately 50% two weeks earlier to nearly zero.

The message remained consistent: The Federal Reserve does not want to raise rates unless inflation data forces it to act.

What is next:

The July Federal Open Market Committee meeting will be the next major event. A rate increase is considered unlikely, so investors will focus on Chair Warsh's press conference. If his tone remains balanced, concerns about additional rate increases should continue to be ease.

Bottom Line:

The overall flow of economic news was positive. Earnings outside of AI were generally strong, particularly among banks and financial companies. Inflation data improved, and expectations for additional Federal Reserve rate increases declined.

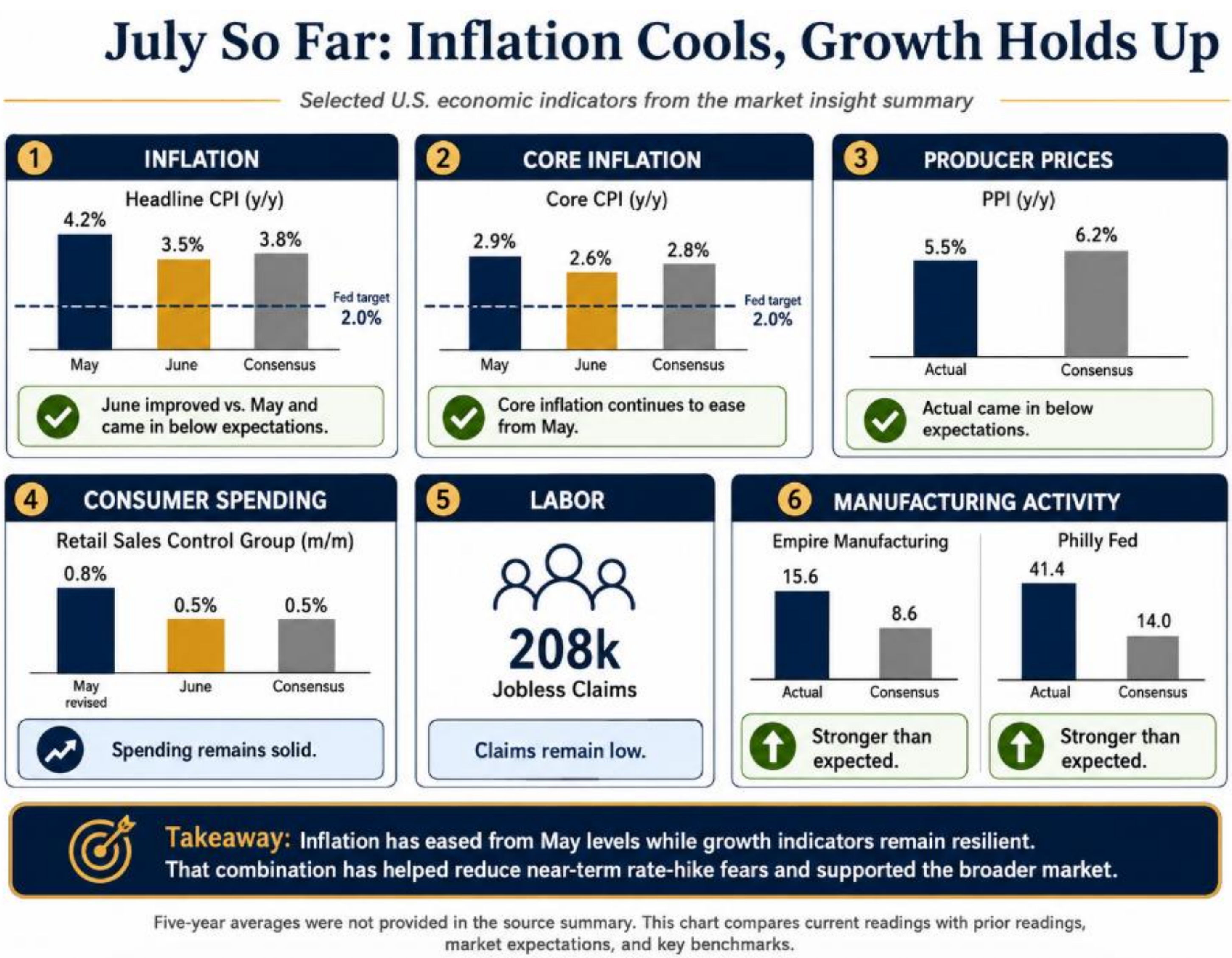
However, AI remains the most important force driving the market. Concerns about the scale and sustainability of AI-related spending offset many of the broader positives. For stocks to regain momentum, investors will need to see solid earnings from major technology companies, more evidence of disciplined AI spending, and ideally some easing of tensions in the Middle East.

Economic Data (What You Need to Know in Plain English)

So far in the month of July, economic data has continued to support a relatively favorable "Goldilocks" environment, with inflation pressures easing while economic growth remains solid. This combination has helped support the broader market despite recent weakness in technology stocks.

Inflation data was better than expected and suggests price pressures may have peaked in May. Headline consumer inflation slowed to 3.5% year over year, down from 4.2% in May and below the 3.8% forecast. Core inflation, which excludes food and energy, declined to 2.6% from 2.9%. Producer prices also rose less than expected, while early July manufacturing surveys showed businesses reporting slower increases in both the prices they pay and the prices they charge.

Inflation remains above the Federal Reserve's target, but the direction is encouraging. The improving trend has reduced concerns that the Fed will need to raise interest rates in the near term, providing additional support for stocks.



Economic growth has also remained resilient. June retail sales were slightly below expectations, but the more important control group, which provides a clearer view of consumer spending, increased 0.5%. May's reading was also revised higher. Weekly jobless claims remained low, and early July manufacturing surveys from New York and Philadelphia came in well above expectations.

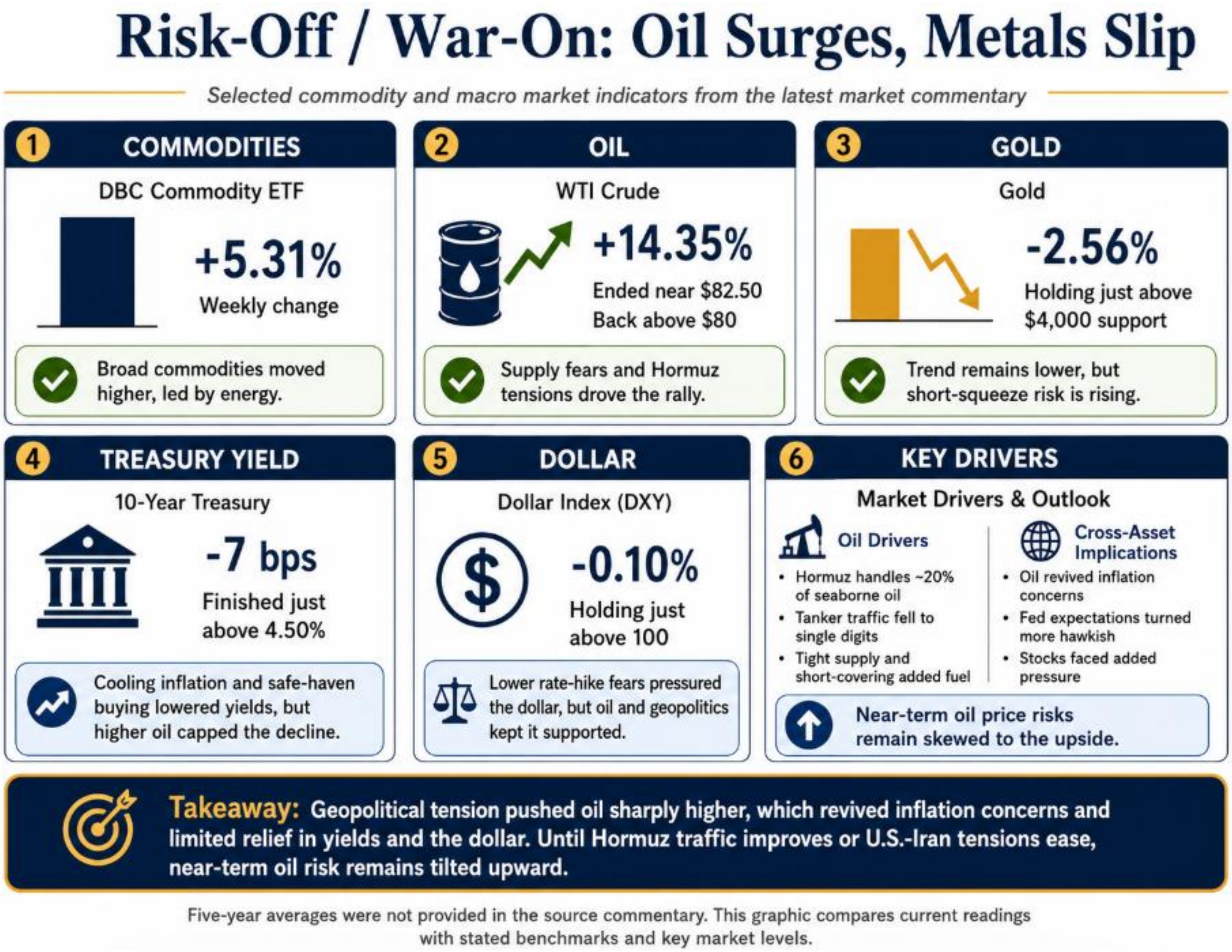
Federal Reserve Chair Warsh continued to emphasize the importance of returning inflation to target, but his comments were not more restrictive than markets anticipated. Although futures markets currently reflect the possibility of a rate increase later in 2026, rate hike concerns are not creating a significant headwind for stocks at this time.

Looking ahead, our investment team will be watching July employment and business activity reports for confirmation that growth remains steady while inflation continues to ease. A continuation of this trend would help support the broader market and reduce pressure on the Federal Reserve to tighten monetary policy.

Commodities & Currencies

Geopolitical tensions in the Middle East have driven a sharp rise in oil prices and renewed concerns about inflation spiking WTI crude oil 14.35% to approximately $82.50 per barrel.

The primary concern is the Strait of Hormuz, a critical shipping route for roughly 20% of the world's seaborne oil. Tanker traffic through the region has fallen sharply, increasing fears of supply disruptions. Tight global supplies, strong refinery demand, and short covering added to the rally. Until shipping activity improves or peace talks resume between the United States and Iran, oil prices may remain under upward pressure.



Gold continues to move lower and hovering just above the important $4,000 level. Although the broader trend remains weak, selling pressure has slowed, which could create the potential for a short-term rebound.

The 10-year Treasury yield has declined to just above 4.50%, supported by cooler inflation data and increased demand for safe-haven assets. However, higher oil prices limited the decline by raising concerns that inflation could accelerate again. A move toward 4.20% would likely provide stronger support for stocks.

Easing inflation and lower rate-hike expectations pressured the dollar, but geopolitical uncertainty and higher oil prices provided support. A decline into the mid-to-upper 90s would generally be more favorable for financial markets.

The AI Trade Is Evolving: ROCs, SOCs, and SaaS

Artificial intelligence has remained one of the market's most powerful themes in 2026, but it has also become a more volatile and complicated force. AI-related concerns contributed to the market pullback in February, while renewed enthusiasm helped drive the rebound that began in April.

The key change is that the AI trade is no longer moving as one unified group.

Before 2026, nearly any company with a credible connection to artificial intelligence tended to benefit as enthusiasm increased. Semiconductor companies often led the gains, but most technology stocks moved in the same direction.

That pattern has changed. The AI market can now be viewed through three distinct groups, each with different opportunities and risks.

Receivers of Capital, or ROCs

- These are the companies receiving hundreds of billions of dollars being invested in AI infrastructure. They include **semiconductor**, **memory**, **networking**, **cloud storage**, **data center**, and **computing companies**.
- These businesses have benefited directly from the expansion of AI data centers and the demand for greater computing and memory capacity.

Spenders of Capital, or SOCs

- These are the large technology companies financing the AI buildout, including **Alphabet**, **Amazon**, **Meta**, **Oracle**, and several private AI companies.
- They are spending enormous amounts on data centers, chips, memory, and computing infrastructure. While this investment supports long-term AI growth, it can also place significant pressure on cash flow and profitability.

Software and Potentially Disrupted Companies, or SaaS

- This group includes software companies whose products or services may face greater competition from advanced AI systems. Companies such as **Salesforce**, **Workday**, and **ServiceNow** came under pressure earlier this year as investors considered whether AI could reduce demand for traditional software platforms.

Three Distinct Phases of the AI Trade

The changing relationship among these groups has played an important role in market performance this year.

Phase 1: Software Comes Under Pressure

In late January and early February, software stocks declined sharply as investors became concerned that advanced AI models could eventually replace or weaken parts of the traditional software industry.

The software ETF, IGV, fell approximately 25% from the beginning of the year through early February. However, the broader technology sector declined much less, and the S&P 500 fell only modestly before recovering.

The important takeaway was that severe weakness in one segment of the AI market did not pull the entire market down with it.

Phase 2: AI Infrastructure Takes the Lead

In April, the AI data center boom placed significant pressure on the global memory supply chain. Demand for memory chips increased sharply, benefiting companies such as Micron, SanDisk, Western Digital, and Samsung.

This period highlighted the strength of the ROCs, the companies receiving the capital being spent on AI infrastructure.

AI infrastructure investments significantly outperformed the broader technology market. DRAM and semiconductor-related investments rose far more than the technology sector overall, while software stocks participated more modestly.

Phase 3: Investors Question the Spending Race

Beginning in late June, investor attention shifted toward the companies funding the AI expansion.

The major technology platforms still plan to invest heavily, but investors have begun to consider whether some discipline may be entering the spending conversation. Even a modest reduction in capital spending could improve free cash flow for the hyperscale's.

However, lower spending by the SOCs could reduce future revenue growth for the ROCs.

This explains why several large technology platforms have recently performed well while some AI infrastructure investments have declined. The companies spending the capital may benefit from greater financial discipline, while the companies receiving that capital could face slower growth.

What Does This Mean for our Investors?

First, the growing separation within the AI trade may make the broader market more resilient. Weaknesses in one area of artificial intelligence do not necessarily mean the entire technology sector or stock market must decline.

That is encouraging for diversified investors.

Second, the shift reinforces the importance of understanding where technology exposure is concentrated. A portfolio heavily weighted toward semiconductors, memory companies, software providers, or hyperscale's may react very differently as leadership changes.

The strongest area of the AI market may continue to rotate depending on spending plans, earnings results, technological developments, and investor expectations.

Bottom Line:

The AI trade is becoming more selective. Investors are no longer treating every AI-related company the same.

Some companies are receiving the capital, others are spending it, and some face potential disruption from technology itself. Each group has different risks, and leadership may continue to shift among them.

For investors, the practical lesson is diversification. Balanced exposure across AI infrastructure, major technology platforms, and software can help reduce the risk of becoming overly dependent on one part of a rapidly evolving market.

IBM's Warning Raises Broader Questions for Technology Spending

IBM suffered the largest one-day decline in its 115-year history after reporting weaker-than-expected revenue and earnings and reducing its full-year outlook. The stock fell 25.2%.

The most important part of the announcement was not simply the earnings shortfall. IBM said customers are redirecting technology budgets away from traditional hardware and software and toward AI infrastructure, including servers, semiconductors, networking equipment, and data-center capacity.

That matters because it suggests the AI investment boom may already be affecting the near-term results of companies outside the primary AI beneficiaries.

A New Risk for Software Companies

Earlier this year, software stocks came under pressure because investors feared that advanced AI platforms could eventually replace some traditional software products with lower-cost, customized alternatives.

That concern was generally viewed as a long-term risk. Near-term revenue and earnings were still expected to remain relatively stable.

IBM's warning challenges that assumption. Even before AI begins replacing existing software, companies may already be reducing spending on traditional technology products to fund their AI investments.

If other companies report similar trends, the current technology earnings season could become more difficult and create additional volatility across the sector.

The software ETF, IGV, remains an important indicator to watch. A sustained move below its recent low of $84.76 could signal broader weakness among software and technology stocks.

AI Spending Is Raising the Stakes

IBM's comments also raise questions about the sustainability of the AI infrastructure boom.

Companies are spending aggressively because AI chips, servers, and networking equipment remain scarce and strategically important. However, this spending is pulling capital away from other technology priorities.

That creates two important questions:

1. How long can the current pace of AI infrastructure spending continue?
2. Will those investments ultimately produce the returns companies and investors expect?

The more money hyperscale's and their customers commit to AI infrastructure, the greater the pressure will be to generate measurable productivity gains, revenue growth, and long-term returns.

A Potential Contrarian Opportunity

IBM's report was clearly disappointing, and the decline in customer spending is a legitimate concern. However, the sharp drop in stock may eventually create an opportunity for patient investors.

If the current rush toward AI infrastructure moderates and customers return to traditional IBM products and services, the shares could become more attractive at a significantly lower valuation.

That does not remove the near-term risks, but it makes IBM worth monitoring from a longer-term, contrarian perspective.

Bottom Line:

For now, IBM is one company, not proof of an industry-wide trend. Still, its warning introduces a new risk for software companies and other technology businesses that are not direct beneficiaries of the AI infrastructure buildout.

If additional companies report that AI spending is displacing traditional technology budgets, investors should expect more volatility across the technology sector.

What Is the Copper-Gold Ratio Telling Us?

What the Copper-Gold Ratio Is Telling Us

One of the clearest commodity trends so far in 2026 has been the sharp divergence between copper and gold.

Gold reached a record high of $5,627 per ounce in late January but has since declined steadily. It recently fell below $4,000 for the first time this year, leaving it approximately 30% below its peak and down about 8% year to date.

Copper has moved in the opposite direction. After reaching a record high of $6.72 per pound in April, it remains only about 5% below that level and is still up roughly 12% for the year.

As a result, the copper-gold ratio has risen approximately 20% in 2026.

Why the Ratio Matters

The copper-gold ratio is often used as a broad indicator of economic strength.

Copper is closely tied to manufacturing, construction, electrical infrastructure, and industrial activity. Its role has become even more important with the growth of artificial intelligence, which requires large amounts of copper for data centers, semiconductor production, power generation, and electrical transmission.

Gold, by contrast, is generally viewed as a safe-haven asset. It tends to perform well when investors are concerned about economic weakness, financial stress, or geopolitical uncertainty.

When copper outperforms gold, it often signals that investors expect stronger growth and continued industrial demand. When gold outperforms copper, it can reflect greater concern about the economic outlook.

What It Suggests for the Economy

The strong rise in the copper-gold ratio supports the view that the economy remains resilient and that industrial demand could stay firm through the second half of 2026.

It also argues against the idea that a recession is imminent.

However, there is another side to the signal. The copper-gold ratio has historically moved in the same direction as longer-term Treasury yields. Continued economic strength could keep inflation and interest-rate pressures elevated, supporting a higher-for-longer policy stance from the Federal Reserve.

Bottom Line:

The copper-gold ratio currently points to continued economic expansion rather than recession. It suggests that growth may remain strong enough to keep the Federal Reserve cautious about lowering rates and potentially open to additional tightening if inflation reaccelerates.

The main risk is not that the economy is already weakening. It is that the Federal Reserve responds too aggressively to continued strength and eventually slows the economy too much. For now, the ratio suggests the expansion remains intact.